

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <i>Midland Charter Township</i>	County <i>Midland</i>
Audit Date <i>4/4/05</i>	Opinion Date <i>4/8/05</i>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Burnside & Lang, P.C.</i>			
Street Address <i>5915 Eastman Ave</i>	City <i>Midland</i>	State <i>MI</i>	ZIP <i>48612</i>

CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended December 31, 2004

CHARTER TOWNSHIP OF MIDLAND
BOARD OF TRUSTEES

Terry Holt	Supervisor
Jody Farrell	Treasurer
Korene Labadie	Clerk
Shelly Armstrong	Trustee
Jim Avery	Trustee
Mike McCann	Trustee
Mark Radosa	Trustee

POPULATION-2000
2,297

STATE EQUALIZED VALUATION-2004
\$69,545,600

STATE TAXABLE VALUE-2004
\$59,892,792

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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Independent Auditors' Report

Members of The Township
Board of Trustees
Charter Township of Midland
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Midland, Midland County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Midland, Midland County, Michigan, as of December 31, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 20, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Midland, Michigan
April 8, 2005

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2004**

Using This Annual Report

This annual report of the Charter Township of Midland (the "Township") consists of a series of financial statements. The Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. The Governmental Fund financial statements of the Township tell how these services were financed in the short-term, as well as what remains for future spending. The Governmental Fund financial statements of the Township also report the Township's operations in more detail than the Government-Wide Statements of Net Assets and the Government-Wide Statements of Activities.

The Township As A Whole

The net assets of the Township were \$3,275,555. In a condensed format, the table below shows net assets for the Township as of December 31, 2004:

	2004
Current Assets	\$ 3,407,052
Noncurrent Assets	4,069,110
Total Assets	<u>7,476,162</u>
Liabilities	<u>(4,200,607)</u>
Net Assets:	
Invested in Capital Assets	854,110
Restricted	1,223,392
Unrestricted	<u>1,198,053</u>
Total Net Assets	<u>\$ 3,275,555</u>

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2004**

The Township As A Whole (Continued)

Unrestricted net assets is the part of net assets that can be used to finance day to day operations. The current level of unrestricted net assets for the Township stands at \$1,198,053, or about 168% of operating expenses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating. The following table shows the changes of the net assets as of the December 31, 2004:

	2004
Program Revenues	
Charges for services	\$235,460
Capital grants and contributions	-
General Revenues	
Property taxes	228,930
State revenue sharing	137,501
Contributions from local units	133,736
Interest earnings	60,107
Miscellaneous	550
Total Revenues	<u>560,824</u>
Program Expenses	
General government	331,346
Fire protection	84,780
Building inspection and regulation activities	11,506
Public works	71,733
Flood control	1,057
Township improvements	25,335
Planning and zoning	6,424
Interest and fiscal charges	182,390
Total governmental activities	<u>714,571</u>
Change in net assets	<u>81,713</u>

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2004**

General Fund Budgetary Highlights

Over the course of the year the Township Board amended the budget to take into account events during the year. Total expenditures in the budget for the general fund were \$445,612. Overall, the general fund had a positive variance of \$47,134.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

CHARTER TOWNSHIP OF MIDLAND
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2004

	<u>2004</u>
ASSETS	
Cash and cash equivalents	\$ 2,101,875
Accounts receivable	832,472
Taxes receivable	141,626
Assessments receivable	4,894
Due from other township funds	238,363
Due from other governmental units	87,822
Capital assets:	
Land	\$ 102,400
Buildings and improvements, net	353,028
Township equipment, net	5,197
Fire department equipment, net	64,077
Fire department vehicles, net	299,108
Water system, net	3,245,300
Total capital assets	<u>4,069,110</u>
Total assets	<u>7,476,162</u>
LIABILITIES	
Accounts payable	35,274
Due to other township funds	121,064
Due to other governmental units	1,518
Deferred revenue	827,751
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and contracts payable	145,000
Portion due or payable after one year:	
Bonds and contracts payable	<u>3,070,000</u>
Total liabilities	<u>4,200,607</u>
NET ASSETS	
Invested in capital assets, net of related debt	854,110
Restricted for:	
Debt service	1,223,392
Unrestricted	1,198,053
Total net assets	<u>\$ 3,275,555</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF MIDLAND
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended December 31, 2004

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government:					
Township board	\$ 62,836	\$ -	\$ -	\$ -	\$ (62,836)
Supervisor	12,817	-	-	-	(12,817)
Treasurer	15,807	-	-	-	(15,807)
Assessing	11,600	-	-	-	(11,600)
Clerk	16,810	-	-	-	(16,810)
Elections	2,235	-	-	-	(2,235)
Board of review	984	-	-	-	(984)
Buildings and grounds	31,702	3,200	-	-	(28,502)
All other general government	176,555	-	-	-	(176,555)
Fire protection	84,780	18,545	-	-	(66,235)
Building inspection and regulation activities	11,506	36,946	-	-	25,440
Public works	71,733	131,314	-	-	59,581
Flood control	1,057	-	-	-	(1,057)
Township improvements	25,335	45,455	-	-	20,120
Planning and zoning	6,424	-	-	-	(6,424)
Interest and fiscal charges	182,390	-	-	-	(182,390)
Total governmental activities	\$ 714,571	\$ 235,460	\$ -	\$ -	(479,111)
General revenues:					
Property taxes, levied for general purposes					228,930
State revenue sharing					137,501
Contributions from local units					133,736
Interest earnings					60,107
Miscellaneous					550
Total general revenues					560,824
Change in net assets					81,713
Net assets-beginning					3,193,842
Net assets-ending					\$ 3,275,555

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF MIDLAND
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2004**

	General Fund	Flood Control Fund	Township Improvement Revolving Fund	Water Debt Service Fund	Building Department Fund	Total
ASSETS						
Cash and cash equivalents	\$ 900,260	\$ 8,714	\$ 1,104,195	\$ 88,706	\$ -	\$ 2,101,875
Accounts receivable, net	4,721	-	827,751	-	-	832,472
Taxes receivable, net	141,626	-	-	-	-	141,626
Assessment receivable, net	4,894	-	-	-	-	4,894
Due from other township funds	151,357	-	85,488	-	1,518	238,363
Due from other governmental units	87,822	-	-	-	-	87,822
Total assets	\$ 1,290,680	\$ 8,714	\$ 2,017,434	\$ 88,706	\$ 1,518	\$ 3,407,052
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 13,724	\$ -	\$ 17,903	\$ -	\$ 3,647	\$ 35,274
Due to other township funds	84,935	-	35,576	-	553	121,064
Due to other governmental units	-	-	1,518	-	-	1,518
Deferred revenue	-	-	827,751	-	-	827,751
Total liabilities	98,659	-	882,748	-	4,200	985,607
Fund balances:						
Reserved for:						
Unreserved	1,192,021	8,714	1,134,686	88,706	(2,682)	2,421,445
Total fund balances	1,192,021	8,714	1,134,686	88,706	(2,682)	2,421,445
Total liabilities and fund balances	\$ 1,290,680	\$ 8,714	\$ 2,017,434	\$ 88,706	\$ 1,518	\$ 3,407,052

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF MIDLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2004**

Total fund balances for governmental funds (Exhibit 4) \$ 2,421,445

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	102,400	
Buildings and improvements, net of \$259,071 accumulated depreciation		353,028	
Township equipment, net of \$30,080 accumulated depreciation		5,197	
Fire department equipment, net of \$19,579 accumulated depreciation		64,077	
Fire department vehicles, net of \$432,759 accumulated depreciation		299,108	
Water system, net of \$341,360 accumulated depreciation		<u>3,245,300</u>	
Total capital assets			4,069,110

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at December 31, 2004 are:

Midland County Water Supply System Bonds, Series 2000	\$	(3,215,000)	
			<u>(3,215,000)</u>

Total net assets of governmental activities (Exhibit 2)	\$	<u>3,275,555</u>	
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF MIDLAND
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended December 31, 2004

	General Fund	Flood Control Fund	Township Improvement Revolving Fund	Water Debt Service Fund	Building Department Fund	Total
REVENUES						
Property taxes and related fees	\$ 228,930	\$ -	\$ -	\$ -	\$ -	\$ 228,930
Licenses and permits	26,130	-	-	-	8,824	34,954
State aid	137,501	-	-	-	-	137,501
Contributions from local units	-	-	133,736	-	-	133,736
Charges for services	21,560	-	45,455	-	-	67,015
Interest and dividends	15,111	62	44,678	256	-	60,107
Rents and royalties	3,200	-	-	-	-	3,200
Fines and forfeits	173	-	-	-	-	173
Special assessments	-	-	130,118	-	-	130,118
Miscellaneous	550	-	-	-	-	550
Total revenues	433,155	62	353,987	256	8,824	796,284
EXPENDITURES						
General government	314,269	-	-	-	-	314,269
Public safety	57,534	-	-	-	11,506	69,040
Public works	-	1,057	25,335	-	-	26,392
Community development	6,424	-	-	-	-	6,424
Capital outlay	20,251	-	4,800	-	-	25,051
Debt service	-	-	-	322,390	-	322,390
Total expenditures	398,478	1,057	30,135	322,390	11,506	763,566
Excess (deficiency) of revenues over expenditures	34,677	(995)	323,852	(322,134)	(2,682)	32,718
OTHER FINANCING SOURCES (USES)						
Transfers-in	-	-	-	408,510	-	408,510
Transfers-out	-	-	(408,510)	-	-	(408,510)
Total other financing sources and uses	-	-	(408,510)	408,510	-	-
Net change in fund balances	34,677	(995)	(84,658)	86,376	(2,682)	32,718
Fund balances-beginning	1,157,344	9,709	1,219,344	2,330	-	2,388,727
Fund balances-ending	\$ 1,192,021	\$ 8,714	\$ 1,134,686	\$ 88,706	\$ (2,682)	\$ 2,421,445

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF MIDLAND
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
December 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	32,718
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$116,056) exceeded capital outlay (\$25,051) in the current period.		(91,005)
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Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Midland County Water Supply System Bonds, Series 2000	140,000	
		140,000

Change in net assets of governmental activities (Exhibit 3)	\$	81,713
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF MIDLAND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
December 31, 2004

ASSETS

Cash and cash equivalents	\$ 1,785,456
Taxes receivable	2,247,975
Total assets	<u>4,033,431</u>

LIABILITIES

Due to other governmental units	3,359,696
Due to other funds	673,735
Total liabilities	<u>4,033,431</u>

NET ASSETS

<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Midland (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity

The Township is governed by an elected seven-member board. The accompanying financial statements present the Township operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st. Although the Township 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the Township's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

The 2003 taxable valuation of the Township totaled \$58.2 million, on which ad valorem taxes levied consisted of 3.9312 mills for Township operating purposes. This amount is recognized in the General Fund as current tax revenue.

The government reports the following funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Flood Control Fund is a special revenue fund which accounts for expenditures on public works activities.

The Township Improvement Revolving Fund is a special revenue fund which accounts for the collections from water hookup fees and surcharges added to water bills which are to be used for the repayment of long-term debt.

The Water Debt Service Fund is a debt service fund which accounts for expenditures for long-term debt payments of the Township.

The Building Department Fund is special revenue fund which accounts for revenues from licenses and permits and expenditures for public safety activities.

Additionally, the government reports the following fund type:

The Current Tax Collection Fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 14th of the following year, at which time penalties and interest are assessed.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 to 40 years
Building improvements	20 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 25 years
Office equipment	5 to 10 years
Computer equipment	5 to 10 years

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets (Continued)

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level. The Township had no expenditures in excess of the budgeted amounts for the year ended December 31, 2004.

Fund Deficit—The Building Department Fund (Fund 549) has an accumulated fund deficit of \$2,682 as of December 31, 2004. Public Act 275 of 1980 (MCL 141.921) requires that the Township file a deficit elimination plan to the Michigan Department of Treasury within 90 days after the end of the fiscal year.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated five banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	<u>\$ 2,101,657</u>	<u>\$ 1,785,456</u>	<u>\$ 3,887,113</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings, certificate of deposit)	<u>\$ 3,887,113</u>
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The bank balance of the government deposits is \$3,887,113, of which \$500,000 is covered by federal deposit insurance.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 4. CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 102,400	\$ -	\$ -	\$ 102,400
Capital Assets Being Depreciated				
Buildings and improvements	594,499	17,600	-	612,099
Township equipment	32,626	2,651	-	35,277
Fire department equipment	83,656	-	-	83,656
Fire department vehicles	731,867	-	-	731,867
Water system	3,581,860	4,800	-	3,586,660
Subtotal	5,024,508	25,051	-	5,049,559
Less Accumulated Depreciation for				
Buildings and improvements	244,475	14,596	-	259,071
Township equipment	26,541	3,539	-	30,080
Fire department equipment	14,946	4,633	-	19,579
Fire department vehicles	411,203	21,556	-	432,759
Water system	269,627	71,733	-	341,360
Subtotal	966,792	116,057	-	1,082,849
Net Capital Assets Being Depreciated	4,057,716	(91,006)	-	3,966,710
Governmental Activities Capital Assets-Net of Depreciation	\$ 4,160,116	\$ (91,006)	\$ -	\$ 4,069,110

Depreciation expense was charged to programs of the Township as follows:

General Government	\$ 17,077
Public Safety	27,246
Public Works	71,733
	<u>\$ 116,056</u>

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The amount of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 151,357	General Fund	\$ 84,935
Township Impr.	85,487	Township Impr.	54,996
Building Dept.	1,518	Building Dept.	553
		Tax Collection	97,878
Total	<u>\$ 238,362</u>	Total	<u>\$ 238,362</u>

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 6. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The County of Midland, on behalf of the Township, issued Water Supply System bonds. The Township is responsible for payment of such bonds and debt service which is being financed by a combination of hookup/user fee charged to property owners, and a debt service and maintenance surcharge added to water bills. Revenue from the hookup fee is being recognized in the Township Improvement Revolving fund. The expenditures for debt service made are reflected in the Water Debt Service fund.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Balance 01-01-04</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12-31-04</u>
2000 Water Supply System Bonds; due 12/31/2019	5.35 %	\$ 3,355,000	-	\$ 140,000	\$ 3,215,000

Scheduled payments of long-term debt for years subsequent to December 31, 2004 are as follows:

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	\$172,002	\$ 145,000	\$ 317,002
2006	164,245	155,000	319,245
2007	155,952	160,000	315,952
2008	147,392	170,000	317,392
2009	138,297	180,000	318,297
Thereafter	761,301	2,405,000	3,166,301
	<u>\$ 1,539,189</u>	<u>\$ 3,215,000</u>	<u>\$ 4,754,189</u>

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 7. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8. PENSION PLAN

The Township's defined contribution pension plan investments are held in trust by the fiduciary, Manufacturers Life Insurance Company. Michigan Compiled Laws, Section 38.1132, authorizes the Township pension plan to invest in a wide variety of investments including stocks, bonds, certificates of deposit, real estate, annuity contracts obligations of a specified nature, and real property. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Township provides pension benefits to members of the Township Board of Trustees and full time Police Department members. Contributions to the pension plan are based on 10% for the Police Department members and 7.5% for Township Board members. Benefits in the plan vest immediately at 100%.

For the year ended December 31, 2004, the Township made its contribution of \$2,000. The value of the plan's assets and vested benefits as of December 31, 2004 is \$30,568.91.

NOTE 9. URBAN COOPERATION ACT AGREEMENT

On December 24, 1992, the Charter Township of Midland and the City of Midland entered into an Urban Cooperation Act agreement. Under this agreement, revenue derived from the levy of ad valorem property taxes of specific taxes levied in lieu of general ad valorem property taxes of all of the commercial and industrial property located within the city of Midland will be shared with the Charter Township of Midland. In return for the revenue sharing agreement, the Township agrees that its Township board, during the duration of this agreement, will assist the City of Midland also agrees to provide water and sewer service at their expense to a certain City/Township boundary. The duration of this is thirty years, beginning on the effective date of December 30, 1992, and continuing to December 31, 2022.

**CHARTER TOWNSHIP OF MIDLAND
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 220,000	\$ 245,006	\$ 228,930	\$ (16,076)
Licenses and permits	15,601	22,299	26,130	3,831
State aid	177,500	178,004	137,501	(40,503)
Charges for services	19,000	27,323	21,560	(5,763)
Interest and dividends	7,350	7,820	15,111	7,291
Rents and royalties	2,000	3,000	3,200	200
Fines and forfeits	100	159	173	14
Miscellaneous	250	1,122	550	(572)
Total revenues	441,801	484,733	433,155	(51,578)
EXPENDITURES				
General Government:				
Towship board	\$ 54,478	\$ 70,516	\$ 62,836	\$ 7,680
Supervisor	15,297	15,297	12,520	2,777
Treasurer	15,927	15,927	15,148	779
Assessing	11,600	11,600	11,600	-
Clerk	17,777	17,777	14,573	3,204
Elections	2,700	2,700	2,235	465
Board of review	1,175	1,175	984	191
Buildings and grounds	21,050	22,844	18,163	4,681
All other general government	205,450	199,995	176,210	23,785
Public Safety:				
Fire protection	60,550	59,530	57,534	1,996
Community Development:				
Planning and zoning	6,525	7,025	6,424	601
Capital Outlay:				
General government	5,000	3,206	2,651	555
Fire protection	17,000	18,020	17,600	420
Total expenditures	434,529	445,612	398,478	47,134
Excess (deficiency) of revenues over expenditures	7,272	39,121	34,677	(4,444)
OTHER FINANCING SOURCES (USES)				
Transfers-in	-	-	-	-
Transfers-out	-	24	-	(24)
Total other financing sources and uses	-	24	-	(24)
Net change in fund balances	7,272	39,145	34,677	(4,468)
Fund balances-beginning	1,157,344	1,157,344	1,157,344	-
Fund balances-ending	\$ 1,164,616	\$ 1,196,489	\$ 1,192,021	\$ (4,468)

April 8, 2005

Members of the Township Board of Trustees
Charter Township of Midland
Midland County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of the Charter Township of Midland, for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS

Periodic Financial Reports

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Clerk and Treasurer. The required periodic reports and suggested frequency should include the following:

Treasurer

- Summary report of cash activity by fund (monthly).
- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly).

Clerk, Accounting, Controller, or Finance Department

- Balance sheet by fund (monthly).Detail revenue by fund - budget to actual (monthly).
- Detail expenditures by fund - budget to actual (monthly).
- List of bills to be approved for payment (each meeting).
- Separate list of bills paid prior to approval pursuant to a council approved policy (each meeting).

The Clerk does not provide the Township Board of Trustees with all of the required reports. These reports will assist the Board of Trustees in determining whether the financial activity of the various funds are within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures, etc.

By issuing the above reports and making any necessary corrections within the next reporting period, the Board of Trustees can be reasonably assured financial reports adequately reflect the financial condition of the Township at any point during the year.

Bank Reconciliations

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The clerk's records must agree with or reconcile to the treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation along with the above reports monthly until the Board of Trustees is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

Fund Deficit

The Township has a fund deficit in its Building Department Fund at December 31, 2004. State law requires a deficit elimination plan be filed with the Michigan Department of Treasury within 90 days. The Township has not filed the required plan. We recommend that a deficit elimination plan be filed to comply with State Treasury requirements.

Computerized General Ledger

The general ledger is the primary financial record of the Township and must reflect all financial activity. During our audit, we noted the Current Tax Collection Fund, the General Fixed Asset Account Group and the Long Term Debt Account Group are not maintained by the Clerk on the general ledger. We recommend the Clerk establish these funds and account groups on the general ledger to report this information on a monthly basis so that Board of Trustee members can perform their financial oversight responsibility.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Financial Oversight

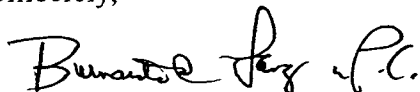
The general limitations in any smaller municipalities like the Charter Township of Midland requires that Board of Trustee members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the Board of Trustees perform these duties and our comment

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the December 31, 2004, financial statements, and this report does not affect our report on those financial statements dated April 8, 2005. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Board of Trustees, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script, appearing to read "Burnside & Lang, P.C.", written in dark ink.

BURNSIDE & LANG, P.C.